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MEASURES FOR THE REHABILITATION OF ENTERPRISES IN THE FOOD-PROCESSING SUBSECTOR IN AFRICA*

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I. INTRODUCTION

1. The current economic and financial difficulties impose major constraints on African industries with pervasive effects on the economic and social welfare of the population, particularly in sub-saharan Africa. A combination of external and internal factors relating to inappropriate industrial policies, as well as financial, technical, technological and managerial aspects have been responsible for the current economic, social and political unrest in the region. More specifically, the collapse of the commodity prices on the international market, external debt burden and debt service obligations, shrinking local markets as well as declining external investments have exposed the fragility of a vast number of enterprises in sub-saharan Africa. The adverse economic situation of many African countries has led to reduced output in both agriculture and industry.

2. African Governments and the international community are increasingly aware that the improvement of the agricultural sector is essential to economic development in most African countries. Food processing is also the major manufacturing subsector in terms of size, manufacturing value-added, installed capacity, employment, contribution to Gross Domestic Product (GDP) and level of investment.

3. Industrialization is generally agriculture-led and it is important to strengthen the linkages between agriculture and industry for a better integration and growth of these sectors and other sectors of the economy. Agriculture and industry are complementary and mutually reinforcing in expanding economy-wide activities. The development of the food subsector requires high standards of processing and preservation of agricultural raw materials.

4. Despite efforts of African Governments and the international community in the agricultural sector, per capita food consumption in the region is declining. It is therefore essential to develop/revive those industries that can contribute not only to increasing and sustaining agricultural productivity but also to fostering rural development in generating incomes for farmers to purchase the industrial products. Consequently, the selection of the food-processing industries for rehabilitation and restructuring is based on social, economic and political considerations, particularly the achievement of the goal of food self-sufficiency in Africa. Also rehabilitation is often a better alternative to new investments since it is easier and cheaper to execute.

5. The concept of rehabilitation as a programme, refers to the set of internal or external activities related to an enterprise that failed to meet its objectives and the potential for becoming sound and profitable. The aim is to provide inputs of investment resources and services to enable the enterprise concerned to attain a basis for sustained viability and profitability and to adjust in a timely manner to a dynamic economic environment.

II. ROLE AND PRESENT STATUS OF THE FOOD-PROCESSING SUBSECTOR IN AFRICA

2.1. Role of food-processing industries

6. The food-processing subsector comprises a vast number of manufacturing activities and represents a very important part of the overall industrial base and economy in many developed and developing countries. In Africa, locally processed products include essentially meat and meat products, dairy products, coarse grains, fish, cocoa, sugar, fruits and vegetables, edible oils and fats and bakery products.

7. In 1985 the subsector's contribution to industrial output was 14.3 per cent in tropical Africa and 18.3 per cent in North Africa. In the same year, the food-processing manufacturing industry accounted for 10 per cent and 15.9 per cent of total industrial output in developed and developing countries respectively. 1/ In 1980, the food-processing industry employed 4.5 million of the 20 million workforce employed in the manufacturing sector in the South. 2/ In 1984, the food-processing in Africa accounted on average for about one third of Manufacturing Value Added (MVA). Thus, for several decades to come, food-processing industries are likely to remain crucial for accelerated growth and development of the African industrial sector and the economy as a whole because of the determinant role of the agricultural and food sector in the economies of most countries of this region.

8. By the year 2000, food imports forecast for Africa will be around 40 million tons. 3/ This figure tends to show the impending food problems in Africa due to the lack of a realistic, sound and timely structural change in the various economies. The food crisis in Africa should and can be solved by creating the proper environment and formulating policies for increased national and regional food production through accelerated agricultural and agro-industrial development in the context of a coherent economic framework.

2.2. Present status and problems of African food-processing industries

9. Despite the high protection and subsidies provided by Governments, the food-processing industries were unable to meet the required production levels of quality and quantity of products at competitive prices in domestic as well as external markets. This is due to a number of factors and problems which could be traced to the corresponding three phases of project development, namely conception/planning, implementation and production.

(i) At the planning stage, many industrial projects in most African countries were rather ambitious and set up without giving proper consideration to the location, realistic forecasts with regard to availability of raw material inputs and market size, the need for industrial integration, the proper selection of production process which are often outdated, and adequate financial arrangements;

(ii) At the implementation stage, many enterprises were confronted with cost overruns resulting from delays in construction or acquisition of the necessary licenses, inadequacy in mobilization of finance, and non-availability of supporting infrastructure such as roads, ports and other utilities; machinery was often not properly tested before commissioning and training of manpower was frequently neglected;

1/ Industry and Development: Global Report 1987, UNIDO, ID/348.
2/ Industry and Development: Global Report 1986, UNIDO, ID/343.
3/ World Agriculture: Towards 2000, FAO, 1988.

(iii) At the production stage, inefficiency and unprofitability were traced to such factors as poor management and organization, inadequate quality control, or appropriate technology and equipment which very often were not adapted to local needs; lack of spare parts, inadequate maintenance, insufficient supplies of raw materials. Excessive employment of unskilled workers and lack of professionalism due to inappropriate managerial appointments as well as lack of in-service training programmes were also contributing factors which undermined the effectiveness of the subsector.

10. The internal weaknesses and the external constraints in conjunction with the scarcity of financial resources in most African countries, arising from the debt burden, as well as the fall in price of primary commodities, prevent the necessary resources being made available for the sustained operation of most food-processing enterprises.

11. As a result of the above situation, the food-processing industry in Africa has been operating at a low capacity utilization which in 1988 was estimated at a regional average of below 40 per cent. In the 1980s, the food-processing output declined by 4 per cent annually up to 1985. Despite some increases in outputs averaging 3.5 per cent and 2.5 per cent in 1986 and 1987 respectively, the rate of capacity utilization has not improved.

12. Since existing industrial capacity in agro-industries in general and the food-processing subsector in particular is not well adapted to local demand and supply conditions, and much of it cannot be sustained, there is need for industrial restructuring and rehabilitation in order to foster the industrial transformation required. For this to be achieved, African industry must obtain optimal technologies which have to be adapted to local conditions and must develop local capabilities for the selection, adaptation and development of appropriate technologies which may contribute to economic and social development objectives. Selected technologies should be environment-friendly for the protection of the environment per se, and a so to avoid causes fcr rehabilitation due to pollution.. "The future lies in shifting the industrial structure towards high growth, competitive enterprises that are linked to the domestic economy. Reviving investment for this purpose will require the restructuring or removal of loss-making firms and substantial efforts to mobilize domestic and foreign investible resources". 4/

III. APPROACH TO INDUSTRIAL REHABILITATION AT THE ENTERPRISE LEVEL

13. Most food-processing enterprises experiencing difficulties are medium- to large-sized firms in the public sector although private and small-scale firms have not been entirely unaffected. Rehabilitation is needed to make these firms more competitive in a changing policy environment by lowering costs, raising quality, improving marketing and distribution and increasing financial flows. These imply changes in production techniques, equipment, personnel upgrading, organization, management and financial structure. Additional incentives and funding may be needed to replace outmoded equipment and to train management staff in order to maintain and enhance competitiveness.

14. Although there is no universally applicable model for rehabilitation and restructuring at the enterprise level, there are however elements and approaches like the UNIDO's integrated programme approach to rehabilitation

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4/ World Bank: Sustainable growth with equity - A long-term perspective for sub-Saharan Africa, Report No 8014 dated August 15, 1989.

that have to be considered. This multi-disciplinary approach is absolutely essential in order to avoid the piece-meal approach and "situate" the firm in its total working environment. Rehabilitation measures must be based on an in-depth understanding of the fundamental causes and nature of the particular rehabilitation/restructuring efforts. This means that an effective rehabilitation plan for any enterprise requires an in-depth diagnosis of the industrial sector - at the macro and industrial economic, financial, management and organization, human resource development, marketing, design and engineering, and technological dimensions. The approach also allows the elaboration of a broad diagnosis and wider range of actions to rehabilitate the firm so that it is able to be profitable and compete successfully in an ever-changing environment.

15. This integrated UNIDO approach is based on a top-down/bottom-up analysis. It starts with an examination of major problems, constraints and potential at the macro-economic level, especially the economic policy and institutional framework, descends through the sector, subsector and branch levels, and arrives finally at the plant level. The "top-down" analysis is followed by an assessment of each firm in terms of its rehabilitation climate from the "bottom-up". In other words, a major effort is made to assess what changes in the economic and institutional environment (e.g. government tariff policies, regulations concerning allocation of foreign exchange, etc.) constitute preconditions to successfull plant level rehabilitation. By examining the plant in its total working environment from top-down to bottom-up, UNIDO believes it can identify the means for firms to achieve long-term viability.

16. UNIDO also believes that the benefits of this approach to rehabilitation will be experienced from the bottom-up:

- First, the immediate beneficiaries of technical co-operation will be the specific enterprises selected. Through them, however, most small and medium-scale enterprises in the industry will gain through direct technical co-operation measures.

- Second, agro-industrial and other key sectors will benefit from the analysis of branch problems and the methods suggested for tackling these problems. The diagnoses will serve as guidelines or models for other plants in the sector.

- Third, the entire industrial sector and related primary sectors such as agriculture will benefit from the recommendations relating to the specific training and assistance required for the development of domestic rehabilitation capacities.

- Fourth, the Government will benefit not only from the direct technical assistance to the enterprise, but also from the project recommendations for macro- and industrial-sector level policy changes designed to strengthen national industrial rehabilitation capacities.

17. Finally, the African governments technical co-operation partners will benefit from the identification of an integrated package of technical assistance and investment projects which will result from the use of this approach and more concerted and consistent co-operation at the international level between the international community and African governments.

18. In preparing an industrial rehabilitation programme, a sequence of steps would include: 5/

(i) assessment of identified enterprises in terms of their existing state of affairs and their potential economic viability and commercial profitability, as major criteria for eligibility;

(ii) a decision based on that assessment as to which enterprise qualifies for rehabilitation in priority order, importance being given to "key industries";

(iii) preparation of a programme - once the enterprise is considered acceptable for rehabilitation - which should start with a broad-based analysis of the food-processing subsector with a view to appraising the internal weaknesses and external constraints working against both the subsector and its constituent enterprises.

3.1. Diagnosis of the enterprise

19. The enterprise diagnosis aims at appraising the internal as well as external constraints, identifying areas of action and formulating proposals for rehabilitation. These proposals would reflect, among others, realistic estimates of demand, suitable selection of products or introduction of new varieties, supply of domestic raw materials and other inputs, and choice of technology appropriate to the scale required and sophistication needed, management structure, availability of qualified management and supervisory personnel and skilled workers, up-grading or replacing of equipment, the maintenance system, production flow, availability of utilities, etc.

20. After the diagnosis of the enterprise, negotiations should take place among the financial institutions involved, enterprise managers and public policy decision-makers. The discussions would centre on: (a) the specific objectives of the enterprise; (b) the means by which relief and/or concessions can be provided; (c) the conditions necessary to rehabilitate the enterprise. In this regard the employment of a reputable management and engineering consulting firm in co-operation with local expertise, would be desirable.

3.2. Project formulation

21. This phase should be assigned to the identified management and engineering consulting firm with the purpose of formulating a coherent plan of action, spelling out the activities to be undertaken within the framework of the agreed proposals in the diagnosis and defining the steps according to a schedule adopted by the different parties. The report of the consultant should undergo a tripartite negotiation (financial institutions, policy makers, enterprise) in order to evolve a consensus relative to the project and secure the official approval of all concerned. This approval might then result in a management contract which could increase the powers and autonomy

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5/ See Annex I.

of public enterprise managers as well as clarify their responsibilities. It should formulate the criteria of performance according to which the results would be measured. The policy makers on their side should fix the institutional, legal, economic and financial conditions within which the activity of the enterprise falls. The management contract would comprise a schedule of implementation of reciprocal obligations for an agreed period of time. As management contracts are normally very expensive and often require foreign exchange, every effort should be made to develop national and regional capabilities for the purpose. UNIDO may be in a position to assist in the above-mentioned activities. In project formulation, consideration should be given to joint-ventures with suitable partners who may provide not only finance, but also management, know-how, markets, etc.

3.3. Implementation and monitoring of the rehabilitation programme

22. Once the plan of action is agreed upon and in order to reinforce coherence in the action to be taken, it may be advisable to entrust the same consulting firm which prepared the diagnosis with a view to securing a greater guarantee of operations. For a successful rehabilitation programme, top and middle managers should be associated with the implementation of the programme, since they would have been committed in the diagnosis. Training of personnel at all levels should be a necessary component of the rehabilitation package.

23. Rehabilitation plans, more than physical investment projects, need rigorous, systematic, coherent and coordinated monitoring. After the programme is approved, the participating institutions need to make sure that (a) the funds are properly used; (b) the terms and conditions laid down in the proposals are adhered to; (c) the auditors have been appointed; (d) the stipulated changes in management and other concerned areas have been effected; (e) the periodic progress reports on production, sales, profits, finance and cash management are regularly made. In this regard, the importance of a competent and dedicated Board of Directors to formulate company policies and supervise operations cannot be over emphasised.

24. Rehabilitation programmes require complementary action by government, industry, labour unions, financial system and individual enterprises alike. A mix of self-reinforcing policy reforms, institutional changes or adaptation and direct measures at the sectoral, subsectoral and enterprise levels is needed to facilitate sustainable industrial rehabilitation/restructuring. 6/

25. Effective rehabilitation requires not only improvement in the physical facilities of the plant but also changes in the behaviour and motivation of enterprises, managers and workers. Exact mix of such measures depends very much on the nature of restructuring, as well as on the economic and social systems of a country, and ability of enterprises to respond quickly to the changed policy environment.

26. In this context, the government has a role to play. It must foster an appropriate policy and business environment that will facilitate rehabilitation/restructuring, concentrate on eliminating policy distortions, promote efficient institutions and strengthen market mechanisms, rather than intervene in the decision-making process at the enterprise level.

6/ See Issue Paper 2 for more details.

27. Direct rehabilitation measures should normally be determined by individual enterprises, either public or private; however, governments may have to work with industry, particularly the food industry, to develop and support the implementation of desirable rehabilitation projects. For instance, financial restructuring is very often essential when enterprises face liquidity problems that result from sudden increases in inflation, high real interest rates, and large devaluations that increase debt-obligations in local currency terms. In these instances conversion of foreign exchange debts into local currencies, rescheduling of debts, provision of guarantees, and infusion of equity through different mechanisms may be justified.

IV. FINAL CONSIDERATIONS

28. Taking into consideration the above and in order to revive industrial growth and ensure the development of the African economy, the Consultation is invited to examine the following proposals in devising a rehabilitation programme for African food-processing industries.

(a) Any identified enterprise for rehabilitation should become commercially profitable and economically justifiable within a specified period of time, without persistent supportive measures. The ultimate financial viability and economic justification might be considered from the following points of view:

(i) Prospects for the enterprise to earn profits and give returns to shareholders;

(ii) Prospects of economic benefits accruing to the economy, by way of production, employment, earnings of foreign exchange and generation of tax revenues;

(iii) Satisfaction of national goals such as rural development, small enterprises promotion and creation of new entrepreneurs, etc.

(b) In devising a rehabilitation concept, the existence of a market is the first pre-requisite. If the demand for products becomes weak in a competitive market, change or diversification of the product mix may be a precondition for financial concessions. A change of management or management structure would be the next prerequisite if the problem lies in inefficient management. If the technology/equipment is obsolete or subject to breakdown, then its replacement and/or upgrading should take place. If there is overstaffing, reduction would be a basic requirement for the rehabilitation plan to succeed. The causes of sickness have to be identified and ordered in terms of their importance, and a rehabilitation programme must be specifically designed to resolve first the more important causes contributing to the sickness of the enterprise.

(c) The collapse of an enterprise due to internal or external factors may be aggravated by the parties concerned in not rendering timely assistance in the form of collective efforts to revive the enterprise's performance. For example, management may fail to bring in the necessary financial contribution, agree to needed changes in management structure and abide by certain managerial discipline; labour may not accept wages or staff reduction during the critical years; financial institutions may not approve rescheduling of loans or reviewing of interest rates, governments may find it difficult to modify general policies to meet the needs of individual enterprises. It should be emphasized that every party has certain responsibilities with respect to the performance of the enterprise. Thus, a depressed firm should

be considered as a collective concern, and rehabilitation proposals will normally call for temporary sacrifices and extra concerted efforts from all concerned for mutual long-term benefits.

(d) In order to supervise the rehabilitation of a firm, it may be necessary, at the initial period after the plan of action is brought into effect, to create a Board of Directors at which the involved institutions are represented to give the necessary guidance. It should appoint a management committee which would meet regularly to review all operations. It should also devise systems to monitor progress effectively and to produce warning signals.

(e) The monitoring system should be simple, practical and designed to provide meaningful information as briefly and promptly as possible. The format should be such that the borrowers can provide the required information from the business records that they normally maintain. Generally, quarterly progress reports are necessary, but special institutional teams may also be constituted, which will monitor the progress of enterprises under rehabilitation, and frequently visit them, to be aware of any arising problems and suggest remedial measures as needed, discuss them with the promoters, and get the agreed proposals implemented.

(f) In the implementation of rehabilitation plans, technology aspects should be taken into consideration for the proper selection of up-to-date and environment-friendly technologies, their adaptation to local conditions, and effective transfer of technology. This can only be achieved through conscious efforts of human resource development which would include in-service training for all levels of managerial, supervisory and operational staff.

(g) In conceptualizing and implementing the above proposals, international co-operation will be needed and industrial partnerships encouraged. Partnership should be understood in a broad sense: in addition to the development of rehabilitation concepts for individual firms, partnerships could extend to joint-ventures and/or venture-capital, and agreements which favour the marketing of African food-processing products in export markets.

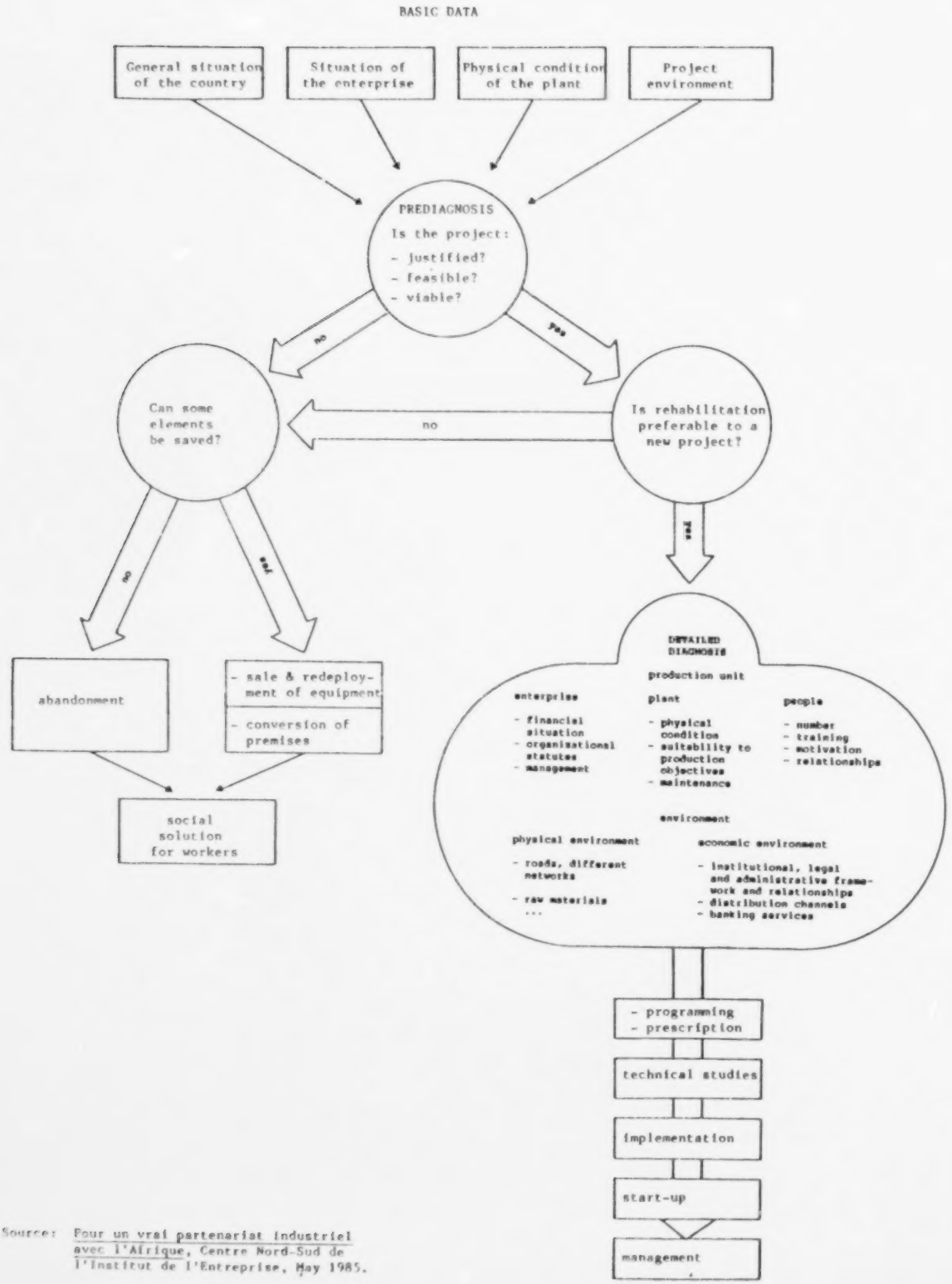
(h) Intensified North-South and South-South co-operation should enable the development of technologies better adapted to the needs of African countries, in terms of capacity, simplicity of operation and preventive as well as curative maintenance, flexibility, mobility.

(i) In developing and implementing rehabilitation projects to assist enterprises experiencing difficulties, i.e. medium-sized private enterprises and parastatals going for privatization in the manufacturing sector in general and in the food-processing subsector in particular, priority should be given to firms which add value to local resources, are labour-intensive and have the potential for export. Privatization might be considered as one possible solution to interrelated problem of restructuring and mounting fiscal burdens of public companies. It includes not only a transfer of equity ownership but also other means of enhancing private sector involvment in management and operation, such as leasing and management contracts. These latter arrangements may be of particular relevance to African countries where at present it seems difficult to attract significant amounts of private capital.

(j) In this context, the rehabilitation programme, as a continued process, opens new possibilities in Africa for exchange, investments and services. The international community, multilateral and bilateral agencies, particularly donor countries, are called upon to take advantage of these opportunities. African countries on their side, should undertake their own marketing in the search for the potential partners/investors either in the North or the South as the case may be and review investment codes to encourage foreign investments.

ANNEX I

MODEL FLOW CHART FOR A REHABILITATION OPERATION



Source: Pour un vrai partenariat industriel avec l'Afrique, Centre Nord-Sud de l'Institut de l'Entreprise, May 1985.